

# CORPORATE GOVERNANCE REPORT 2014

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The Austrian Code of Corporate Governance (ACCG) provides Austrian stock corporations with a framework for the management and supervision of companies. This framework includes internationally recognized standards for good corporate governance as well as relevant regulations of Austrian stock corporation law.

The code aims to ensure a responsible management and control of companies and corporate groups oriented towards the sustainable and long-term value creation. It is intended to create a high degree of transparency for all stakeholders of the company.

## Declaration of Commitment

Lenzing AG respects the Austrian Code of Corporate Governance. For the first time, the company committed itself in 2010 to complying with the stipulations contained in the code. The Supervisory Board also unanimously resolved to fully adhere to the ACCG. The code is available on the Internet at [www.corporate-governance.at](http://www.corporate-governance.at) in the currently valid version (January 2015). Lenzing AG is required to prepare and publish a Corporate Governance Report in accordance with L-Rule 60 ACCG.

This Corporate Governance Report is publicly available on the Website of Lenzing AG (C-Rule 61 ACCG).

## Corporate Bodies of Lenzing AG

The division of responsibilities of the members of Lenzing's Management Board during the 2014 financial year was as follows:

### 1) Management Board

**Peter Untersperger** (born 1960)

Chairman of the Management Board

First appointed: January 1, 1999

Current mandate expires: March 31, 2016

**Responsibilities:** Global Strategy, Global Human Resources, Innovation & Strategic R&D, Risk Management & Internal Audit, Corporate Communications, Wood Purchasing, Lenzing Technik

**Supervisory Board mandates in other companies:** none

**Friedrich Weninger** (born 1957)

Member of the Management Board

First appointed: January 1, 2009

Current mandate expires: December 31, 2014

**Responsibilities:** TENCEL® Operations, Viscose/Modal Operations, Pulp Operations, Global

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Fiber Engineering, Operational Excellence, Global Safety, Health & Environment (SHE), Site Service Management Lenzing, Operations Controlling

**Supervisory Board mandates in other companies:** none

Mr. Weninger resigned from his position on the Supervisory Board effective December 31, 2014.

**Robert van de Kerkhof** (born 1964)

Member of the Management Board

First appointed: May 1, 2014

Current mandate expires: April 30, 2017

**Responsibilities:** Global Sales, Business Development Apparel, Business Development Hygiene & Technical, Technical Customer & Quality Management, Product Management Viscose/Modal, Market Intelligence, Marketing Communication, Global Logistics, Marketing & Sales Controlling Service

**Supervisory Board mandates in other companies:** none

**Thomas Riegler** (born 1970)

Member of the Management Board

First appointed: June 1, 2014

Current mandate expires: May 31, 2017

**Responsibilities:** Global Finance, Pulp Trading, Global Purchasing, Global IT, Legal Management & Compliance, Investor Relations, Filaments

**Supervisory Board mandates in other companies:** none

The Management Board manages the business operations of Lenzing Aktiengesellschaft in accordance with prevailing legal regulations, the Articles of Association and the internal rules of procedure applying to the Management Board. The distribution of responsibilities among the members of the Management Board is determined based upon the organizational plan stipulated in the internal rules of procedure, which also regulates the mode of cooperation among the Management Board members. Furthermore, the Management Board is required to fully comply with the rules stipulated in the Austrian Code of Corporate Governance.

## 2) Supervisory Board

### 2.1. Composition

**Michael Junghans** (born 1967)

Since March 29, 2011: Chairman (up to March 29, 2011: Deputy Chairman)

First appointed: April 30, 2010

In a letter dated March 10, 2015, Michael Junghans announced his resignation from the Supervisory Board effective April 22, 2015.

**Supervisory Board mandates in other companies:** Semperit AG Holding

**Veit Sorger** (born 1942)

Since March 29, 2011: Deputy Chairman

First appointed: June 4, 2004

Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year.

**Supervisory Board mandates in other companies:** Mondi AG (Chairman), Semperit AG Holding (Chairman), Constantia Industries AG (Chairman), Binder+Co AG, GrECo International Holding AG

**Hanno M. Bästlein** (born 1963)

First appointed: April 28, 2014: First Deputy Chairman

Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2016 financial year.

**Supervisory Board mandates in other companies:** Duropack GmbH (Chairman), AMAG Austria Metall AG, VA Intertrading AG (Chairman)

**Helmut Bernkopf** (born 1967)

First appointed: April 23, 2009

Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year.

**Supervisory Board mandates in other companies:** CA Immobilien Anlagen AG (up to October 28, 2014), Schöllerbank AG, Österreichische Kontrollbank AG, Card Complete Service Bank AG (Chairman), Bausparkasse Wüstenrot AG, BWA Beteiligungs- und Verwaltungs-Aktiengesellschaft

**Franz Gasselsberger** (born 1959)

First appointed: April 24, 2013

Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2015 financial year.

**Supervisory Board mandates in other companies:** Bank für Tirol und Vorarlberg AG (Chairman), BKS Bank AG, Voestalpine AG, AMAG Austria Metall AG

**Josef Krenner** (born 1952)

First appointed: April 23, 2009

Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year.

**Supervisory Board mandates in other companies:** Flughafen Linz GmbH, B&C Industrie-holding GmbH, AMAG Austria Metall AG (Chairman)

**Martin Payer** (born 1978)

First appointed: June 15, 2007

Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year.

**Supervisory Board mandates in other companies:** none

Martin Payer resigned from his position on the Supervisory Board on April 28, 2014 at his own request.

**Patrick Prügger** (born 1975)

First appointed: March 29, 2011

Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2015 financial year.

**Supervisory Board mandates in other companies:** Semperit AG Holding, AMAG Austria Metall AG

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**Andreas Schmidradner** (born 1961)

First appointed: June 12, 2008

Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2016 financial year.

**Supervisory Board mandates in other companies:** Semperit AG Holding, VAMED AG

**Astrid Skala-Kuhmann** (born 1953)

First appointed: April 19, 2012

Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year.

**Supervisory Board mandates in other companies:** Semperit AG Holding

## Supervisory Board members designated by the Works Council:

**Rudolf Baldinger** (born 1954)

First appointed 1998

**Georg Liftinger** (born 1961)

First appointed 2008

**Daniela Födinger** (born 1964)

First appointed 2014

**Johann Schernberger** (born 1964)

First appointed 2001

**Franz Berlanda** (born 1961)

First appointed 2014

## 2.2. Independence (C-Rules 53 and 54 ACCG)

The Supervisory Board has adopted the guidelines relating to the independence of its members pursuant to Appendix 1 of the Austrian Code of Corporate Governance.

All members of the Supervisory Board have declared themselves to be independent from the company and the Management Board.

Pursuant to C-Rule 54 of the ACCG, the Supervisory Board members Veit Sorger, Helmut Bernkopf, Franz Gasselsberger, Astrid Skala-Kuhmann and Josef Krenner declared in the 2014 financial year that they were neither shareholders with a stake of more than 10% in the company nor did they represent such a shareholder's interests.

## 2.3. Mode of operation of the Supervisory Board

To fulfill its responsibility of overseeing the work of the Management Board, the Supervisory Board of Lenzing AG convenes at least once every quarterly period for a meeting. A total of six Supervisory Board meetings took place during the year under review (C-Rule 36 ACCG).

In the 2014 financial year the Supervisory Board of Lenzing AG constituted six committees consisting of its own members (C-Rules 34 and 39 ACCG):

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### 2.3.1. Audit Committee

The Audit Committee carries out the responsibilities assigned to it pursuant to Section 92 para 4a Austrian Stock Corporation Act. This stipulates that these responsibilities are primarily in auditing and preparing the adoption of the annual financial statements and the evaluation of the proposal made by the Management Board on the distribution of profits as well as the Management Report. The Audit Committee also examines the consolidated financial statements of the Group and the Group Management Report and makes a recommendation for the selection of the auditors. Furthermore, the Audit Committee examines the effectiveness of the internal control system (ICS), internal auditing and the risk management system of the company. The committee is required to report to the Supervisory Board about its activities. In the 2014 financial year the Audit Committee convened three times.

**Members:** Hanno M. Bästlein (Chairman as of the Annual Shareholders' Meeting on April 28, 2014), Michael Junghans, Veit Sorger (up until Annual Shareholders' Meeting on April 28, 2014), Patrick Prügger, Andreas Schmidradner, Rudolf Baldinger, Georg Liftinger

### 2.3.2. Nomination Committee

The Supervisory Board has established a Nomination Committee which makes recommendations to the Supervisory Board on filling new or vacant positions on the Management Board, and also deals with issues relating to succession planning. Moreover, the committee makes proposals to the Annual Shareholders' Meeting for filling vacant positions on the Supervisory Board. No meetings of the Nomination Committee were held in the course of the 2014 financial year.

**Members:** Hanno M. Bästlein (Chairman as of the Annual Shareholders' Meeting on April 28, 2014), Michael Junghans, Veit Sorger, Rudolf Baldinger, Georg Liftinger

### 2.3.3. Remuneration Committee

The Supervisory Board has set up a Remuneration Committee which deals with the terms and conditions of employment contracts with Management Board members, ensures compliance with C-Rules 27, 27a and 28 ACCG and also assesses the remuneration policy with respect to Management Board members in regular intervals. The Remuneration Committee convened twice during the 2014 financial year, focusing in particular with evaluating the performance of the Management Board in the 2013 financial year and performance targets for 2014, as well as general remuneration issues relating to the Management Board.

**Members:** Hanno M. Bästlein (Chairman as of the Annual Shareholders' Meeting on April 28, 2014), Michael Junghans, Veit Sorger

### 2.3.4. Strategy Committee

The Supervisory Board established a Strategy Committee concerning itself with evaluating the strategic positioning of the company and monitoring the implementation of the business strategy. In 2014 the Management Board developed strategic options for the Lenzing Group on the basis of a market and competition analysis with the support of external consultants,

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which was discussed with the Strategy Committee. Four meetings of the Strategy Committee were held in the 2014 financial year.

**Members:** Hanno M. Bästlein (Chairman as of the Annual Shareholders' Meeting on April 28, 2014), Michael Junghans, Astrid Skala-Kuhmann, Veit Sorger, Rudolf Baldinger, Georg Liftingner

## 2.3.5. excelLENZ Committee

The excelLENZ Committee deals with the ongoing monitoring and control of operational measures of the global cost savings and improvement program "excelLENZ 2.0". The focal points include savings designed to improve margins, reduce costs and optimize cash flow. The excelLENZ Committee convened three times in the course of the 2014 financial year.

**Members:** Michael Junghans (Chairman), Hanno M. Bästlein, Veit Sorger, Andreas Schmidradner, Rudolf Baldinger, Georg Liftingner

## 2.3.6. Share Buyback Committee

The committee was established in order to be able to make quick decisions in the case of share buyback activities. No meetings of the committee were held during the 2014 financial year.

**Members:** Hanno M. Bästlein (Chairman), Michael Junghans, Patrick Prügger, Franz Gasselsberger, Rudolf Baldinger, Georg Liftingner

## 2.4. Cooperation of the Management Board and Supervisory Board

The Management Board reports to the Supervisory Board on fundamental issues relating to the future business policies of the company and the Group, as well as the future development of the financial position and financial performance of the Lenzing Group. In addition, the Management Board regularly informs the Supervisory Board about business developments and the current situation of the company and the Group in comparison to forecasts, taking the future development into account. The Management Board and Supervisory Board also discuss the long-term growth objectives of the Lenzing Group in a separate strategy meeting.

## 2.5. Self-evaluation of the Supervisory Board

The Supervisory Board carried out a self-evaluation in the 2014 financial year in accordance with C-Rule 36 ACCG in the form of a questionnaire which focused on issues such as the controlling function of the Supervisory Board with respect to the Management Board as well as the compliance with the Management Board's obligations to provide information to the Supervisory Board. The results of the self-evaluation show that the activities of the Supervisory Board of Lenzing AG are given an overall rating of good. The Supervisory Board decided to follow up on several suggestions which were made during the self-evaluation process. Fur-

thermore, a list of measures designed to enhance the efficiency of the Supervisory Board's work was prepared.

### 3) Principles of Management Board and Supervisory Board Remuneration (C-Rule 30 ACCG)

The remuneration models for the Management Board employment contracts were harmonized over the last two years, and the variable salary components in these contracts were expanded. The remuneration of all four Management Board members in the 2014 financial year consists of a fixed and a variable performance-oriented salary component. In addition, the Management Board is given a long-term bonus bank model. The maximum bonus is limited to 133% of the fixed annual salary (Untersperger) and 88% (van de Kerkhof, Riegler). A stock option program or a program for the beneficial transfer of shares does not exist.

- The short-term profit sharing scheme for the Management Board is primarily determined by the by the criteria of EBITDA, Group net profit for the year and ROCE as well as individual qualitative goals.
- With respect to the 2014 financial year, the targets used to determine the long-term bonus bank model are as follows: 2/3 of the bonus bank model for Mr. Untersperger and Mr. Weninger and 50% for Mr. Riegler and Mr. van de Kerkhof will be calculated on the basis of performance criteria of the Lenzing Group (sales, EBIT margin, total shareholder return) evaluated over a period of several years and compared to a peer group, and 1/3 and 50% respectively will consist of the achievement of qualitative targets. Payment will be distributed over a three-year period.
- Furthermore, the Management Board is also entitled to the company making contributions to a pension fund. This amounted to EUR 118 thousand in the 2014 financial year (2013: EUR 108 thousand).
- Company pension benefits as well as severance payments and entitlements to benefits in case an employment contract of a board member is terminated are determined by valid federal regulations (Company Employee Pension Act).
- In the case of the premature termination of a Management Board contract, the conditions stipulated in C-Rule 27a ACCG are adequately taken into account.
- The company has taken out a Directors and Officers Liability Insurance (D & O) policy as well as legal protection insurance for the Management Board members.

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## Amount expensed for active salaries of the Management Board members of Lenzing AG:

### Fixed and variable current remuneration and termination pay for active members of the Management Board (expensed)

EUR '000

	Peter Untersperger		Thomas Riegler		Robert van de Kerkhof		Friedrich Weninger <sup>1</sup>		Thomas Winkler <sup>2</sup>		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Fixed current remuneration	585	566	259	0	292	0	435	434	0	435	1,571	1,434
Variable current remuneration	190	318	116	0	133	0	315	352	0	39	754	708
Termination pay	0	0	0	0	0	0	0	0	0	1,620	0	1,620
<b>Total</b>	<b>774</b>	<b>884</b>	<b>376</b>	<b>0</b>	<b>425</b>	<b>0</b>	<b>750</b>	<b>785</b>	<b>0</b>	<b>2,094</b>	<b>2,325</b>	<b>3,763</b>

The amounts reported for Mr. Untersperger and Mr. Weninger in 2014 include variable salary components which were substantiated in previous years and recognized as an expense once the last condition was met in 2014. An additional EUR 171 thousand (2013: EUR 0 thousand) was also recognized as an expense to cover the payments to which Mr. Weninger was entitled.

In addition, entitlements derived from long-term bonus bank models (other long-term employee benefits) fell by EUR 47 thousand in the 2014 financial year (2013: increase of EUR 300 thousand). Remuneration for former members of the Lenzing Management Board or their surviving dependants amounted to EUR 952 thousand in 2014 (2013: EUR 927 thousand).

Members of the Management Board of Lenzing AG received a total of EUR 102 thousand in remuneration in the 2014 financial year for consulting services rendered before their Management Board mandates (2013: EUR 0 thousand).

The principles underlying the remuneration paid to members of the Supervisory Board are laid down in the Articles of Association of Lenzing AG (Section 13), which are published on the Website of the company. In accordance with the Articles of Association, the members of the Supervisory Board are granted an annual remuneration corresponding to their responsibilities as well as the overall situation and financial position of the company.

The remuneration of the Supervisory Board members for the 2013 financial year as resolved upon by the Annual Shareholders' Meeting of Lenzing AG held on April 28, 2014 amounted to the following:

- EUR 30,000 for the Chairman of the Supervisory Board
- EUR 25,000 for the Deputy Chairman of the Supervisory Board
- EUR 20,000 for each other member of the Supervisory Board
- EUR 5,000 for the Chairman of the Audit Committee and Strategy Committee as well as for financial experts
- EUR 2,500 for the Chairman of the Nomination Committee and Remuneration Committee and for each member of a Supervisory Board committee

<sup>1)</sup> Member of the Management Board until December 31, 2014. <sup>2)</sup> Member of the Management Board until December 31, 2013.

In addition, each Supervisory Board member receives an attendance fee for each Supervisory Board meeting amounting to EUR 1,000 and each member of a Supervisory Board committee is granted an attendance fee of EUR 500 for each committee meeting attended.

Accordingly, the total remuneration paid to the members of the Supervisory Board amounted to EUR 294,450. The remuneration paid during the 2014 financial year to the individual members is listed below:

Michael Junghans	EUR 55,000
Veit Sorger	EUR 45,000
Helmut Bernkopf	EUR 26,000
Josef Krenner	EUR 26,000
Martin Payer	EUR 26,000
Patrick Prügger	EUR 32,000
Andreas Schmidradner	EUR 31,000
Astrid Skala-Kuhmann	EUR 28,250
Franz Gasselsberger	EUR 18,750
Rudolf Baldinger	EUR 1,650
Georg Liftinger	EUR 1,950
Gerhard Ratzesberger	EUR 150
Johann Schernberger	EUR 1,050
Daniela Födinger	EUR 1,050
Franz Berlanda	EUR 600

#### 4) Promoting the career advancement of women on the Management Board, Supervisory Board and executive positions (L-Rule 60 ACCG)

Lenzing AG observes a strict equal opportunity policy and actively promotes the career development of women in management positions in all business areas.

In recent years, the percentage of women holding qualified positions in the company has steadily increased. This includes Ms. Astrid Skala-Kuhmann, who has served on the Supervisory Board since 2012 and Daniela Födinger, also a Supervisory Board member since 2014. Moreover, inasmuch as it is made possible by the respective position, the company promotes the compatibility of career and family life on the basis of flexible working time models and the possibility to work at home.

#### 5) Compliance

After establishing a separate staff unit, the "Group Compliance Office", and developing a Code of Conduct in 2012, the code was adopted as binding rules of behavior by all operating units and subsidiaries. Furthermore, the Issuers' Compliance Directive was revised and published. A Group-wide compliance management system (CMS) was further developed, communicated and implemented within the context of the Lenzing Group Portal (Intranet). In addition to a

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help platform and various information systems, employees also have the opportunity to report suspected violations of compliance rules. More than 250 employees have been given relevant training since the staff unit was set up. The focus of the classroom-based instruction was CMS as well as anti-corruption issues and competition law. A series of guidelines were issued, including procedural instructions related to house searches. A report on compliance activities at Lenzing AG is submitted once a year to the Audit Committee according to C-Rule 18a ACCG.

## 6) Directors' Dealings

The disclosure of share purchases and sales by members of the Management Board and Supervisory Board is carried out in accordance with valid provisions contained in the Austrian Stock Exchange Act. A link to the Website of the Financial Market Authority can be found on the Website of Lenzing AG.

## 7) Risk management and internal auditing

The effectiveness of Lenzing's risk management system was evaluated by the auditor Deloitte Audit in accordance with C-Rule 83 ACCG and issued an unqualified opinion. The Management Board was informed about the results. Furthermore, the Head of Risk Management annually reports about current risks during a meeting of the Audit Committee.

The Internal Audit Department reports directly to the Management Board. The annual auditing plan is determined in close collaboration with the Management Board and the Audit Committee. Similarly, the Head of Internal Audit reports to the Audit Committee about the key audit findings.

## 8) External evaluation

In accordance with C-Rule 62 ACCG, Lenzing submits to an external evaluation of its compliance with the C-Rules and R-Rules of the Austrian Code of Corporate Governance on a regular basis, but at least every third year. Lenzing contracted PwC Upper Austria to evaluate its Corporate Governance Reports 2014. The external evaluation concluded in both cases that the declaration provided by Lenzing AG committing the company to complying with the Austrian Code of Corporate Governance (July 2012 version) gives a true and fair view of the actual situation. All external evaluation reports can be viewed on the company's Website at [www.lenzing.com](http://www.lenzing.com).

Lenzing Aktiengesellschaft  
Lenzing, March 12, 2015

### The Management Board

Peter Untersperger

Thomas Riegler

Robert van de Kerkhof